



**Testimony of AARP Connecticut
In Support of S.B. 652
An Act Concerning Small Business Retirement Plans**

**Commerce Committee
March 11, 2008**

Good morning, Chairman LeBeau, Berger, Ranking Members Debicella, Stripp and members of the Commerce Committee. My name is John Erlingheuser and I am the Advocacy Director for AARP Connecticut. I am here today as a representative of AARP's more than 625,000 members in Connecticut to support S.B. 652 An Act Concerning Small Business Retirement Plans.

A major priority for AARP is to improve access, coverage and adequacy of pensions and other retirement saving vehicles. This is an innovative and exciting idea that is just beginning to get attention in the states. It would put Connecticut solidly in the vanguard of attempts to expand opportunities for workplace retirement savings for the many employees in the private sector who do not currently have such an opportunity. In light of an aging population, the disappearance of guaranteed pensions in the private sector, low or negative savings rates, and the drumbeat of negative news about the long-run solvency of the Social Security system, the time is right for something different.

For the past three decades or more, numerous attempts have been made to expand pension coverage for workers in the private sector, but with almost no noticeable movement; we have been more or less stuck at about 50 percent of the workforce having some kind of retirement coverage. The only area where pensions continue to be widely available—both traditional defined benefit plans that are disappearing in the private sector, and defined contribution plans such as 403(b)s and 401(k)s—is in the public sector.

These plans are exceedingly valuable to those who have them, but can be a source of friction when taxpayers who have no pension of their own perceive they are being taxed to help pay what they view as generous public employee and retiree benefits. The voluntary accounts program can help to defuse this “pension envy” while making use of the expertise, experience, and leverage with providers that the state retirement system has established over many years.

A strong feature of the bill is that it allows great flexibility. The state can determine how ambitious to be in establishing a retirement savings program for Connecticut employers, whether an IRA or a 401(k)-type plan. Since the majority of middle-earners in the U.S.

do not set aside as much as the maximum amount allowed for an IRA (currently \$5000; \$6000 for someone who is 50+ years old), a payroll deduction IRA would fill the bill quite nicely in launching Connecticut's citizens on a path to improved retirement income security.

The state can select institutions for custodial or trust arrangements for the plans or IRAs; and the state can choose to partner with business organizations or others to achieve maximum employer outreach. While the state would serve as an aggregator and facilitator for private employers and their workers, the system of voluntary accounts is essentially market-led, not government-run. Above all, from the employer perspective, voluntary accounts are truly voluntary; there is no mandate, no expectation that employers must participate, or must continue to participate once they have joined.

Connecticut can also achieve "bragging rights" with employers by making voluntary accounts a part of the state's appeal to employers to locate or expand their operations within the state. Voluntary accounts can be seen as part of the state's economic development initiatives. And this can happen without the state taking on legal liability or blurring the bright line between these private accounts and the pension and defined contribution plans run by the state for its own employees. There is also a less positive motivation to pursue offering voluntary accounts, and that is that states will have to help pick up the pieces for many individuals who become impoverished in their later years for lack of an opportunity to participate in a workplace retirement saving plan.

Expanding retirement saving coverage in this way can be done in a very low-cost, low-risk, non-coercive way that employers find appealing. Focus groups in Washington State several years ago revealed tremendous enthusiasm among small employers. In trying to go it alone in providing retirement savings plans, these employers confront prohibitive fees to set up, operate, and monitor retirement accounts. They want to help their workers prepare for retirement, but it simply costs too much. Yet the marginal cost for the state to do these things is minimal, and after a modest initial start-up cost, the continuing operation of voluntary accounts would be paid out of fees from plan participants. Interviews with employer group representatives in Tennessee, Virginia and West Virginia find almost universal support for this concept. Even retirement plan administrators and state treasurers and budget officers are intrigued and inclined to give the idea a closer look.

You may hear opposition to or skepticism about this idea from some in the business community or perhaps the public sector unions. Those who are investment brokers, agents and bankers may object that this would take away some of their business. We would counter that they are not now serving this population, so there is no business for them to lose. But down the road, should these accounts take hold and workers build up IRA or 401(k) balances and want to roll them over when they change jobs, there will be opportunities for these brokers and agents to pick up the business. And of course, they may also compete to be the organizations selected by the state to administer the program.

As to workers and retirees in the public sector, they may fear that universal voluntary accounts are the entering wedge to the elimination of their guaranteed pensions. Nothing could be further from the truth. Voluntary accounts are for private sector workers; the state's retirement system would be involved only because it is the best choice for overseeing the defined contribution plans for people employed in the private sector. There is absolutely no connection with any anticipated changes to public plans. Indeed, AARP is committed to seeing that these traditional pension plans remain strong, and will actively advocate on their behalf.

We hear that states are laboratories of democracy. In an era when the federal government seems unable or unwilling to take bold steps in the area of employee benefits, voluntary accounts represent an opportunity—along with state movement on health care reform—for the states to take the lead on a vitally important national issue. Connecticut is well positioned to be a leader and a role model for improving retirement income security in many other states.